

RECEIVED



JUL 21 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

June 16, 1998

Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street N.W., Room 222
Washington, DC 20554

Dear Ms. Salas:

This letter is to request clarification of provisions in several of the Commission's rules. Specifically, the provisions are contained in Part 32, 36, 54, and 69.

Part 32

The question has arisen as to how to record the revenues collected from end users for interstate special access service. These revenues are flat rate charges assessed on the end user customers who order special access from the carrier's interstate tariff. It appears these revenues meet the requirements for inclusion in Account 5081. Part 32.5081 provides for the following:

32.5081 End user revenue. *This account shall contain the federally tariffed monthly flat rate charge assessed upon end users.*

Some parties maintain that it was the FCC's intent to use account 5081 only for the End User Common Line (EUCL) or Subscriber Line Charge (SLC) revenues collected from the end users. These parties maintain that all Interstate Special Access revenues should be recorded in Account 5083. Part 32.5083 provides for the following:

32.5083 Special access revenue. *This account shall include all federally tariffed charges assessed for other than end user or switched access charges referred to in Account 5081, End User Revenue, and Account 5082, Switched Access Revenue.*

It is not clear whether the Commission intended the accounts to segregate the end user revenues from the carrier's carrier access revenues, or the Commission intended to segregate the EUCL revenues from the Switched and Special Access revenues.

Part 36

The interpretations of the Part 36 issues are more critical, as they impact the jurisdictional separations results, and the rates filed in both federal and state tariffs. The specific issues needing clarification, or change, include the provisions for developing the Central Office Equipment Category 3 allocation factor, and the allocation of Other Billing and Collecting expense.

Definition of Weighted DEM

The Commission's rules for developing the Central Office Equipment (COE) Category 3 allocation factor starting in 1998 consists of two components: the current year DEM factor, and an additive which consists of the **1996 INTERSTATE WEIGHTED DEM FACTOR** (emphasis added) minus the 1996 interstate DEM factor. The additive is combined with the current DEM factor. The COE Category 3 allocation factor is then developed by taking the lesser of the combination described above or 85%. It has come to our attention that the Commission may have intended to prescribe the 1996 COE category 3 allocation factor rather than the 1996 interstate weighted DEM factor for developing the additive described above. The Commission provided the following definitions:

Weighted DEM Factor – "A Weighted DEM factor is the product of multiplying a weighting factor, as defined in paragraph (f) of this section, to the interstate DEM factor." (36.125(a)(5))

Interstate allocation [COE Category 3] factor – "the percentage of local switching investment apportioned to the interstate jurisdiction." (36.125(a)(4))

GVNW has filed both state and interstate tariffs using the formula and the definition provided in the Part 36 rules as described above. If this formula and the definition are as intended by the Commission, we request a confirmation to put to rest the concerns that the Commission prescribed something other than what was intended. If, however, the Commission did intend to prescribe the use of the 1996 COE category 3 allocation factor as the starting point for developing the additive, rather than the interstate weighted DEM as prescribed, we request that the Commission take appropriate action to change the rule so that both state and interstate tariffs can be filed consistent with both the Commission's Rules, and the Commission's intent. (Note: this issue should only impact those companies whose 1996 interstate weighted DEM calculated per the Commission's rules exceeds 85%.)

Access Line Threshold in Developing COE Category 3 Factor

Another issue regarding the calculation of the COE Category 3 factor starting in 1998 relates to the use of access line counts to adjust the weighting factor that was used in the 1996 development of weighted DEM. There are no provisions in the Part 36 rules

for adjusting the 1996 weighted DEM to reflect access line growth subsequent to 1996. It has been suggested that the Commission intended to put provisions in the Part 36 rules similar to the rules in Part 54.301(a)(2)(ii) related to adjusting the 1996 weighted DEM calculation.

The rule as prescribed (e.g. no threshold adjustment for change in access lines) effectively addresses a concern that the industry has been dealing with for years. The issue is often referred to as the "cliff effect". Under the prior rules, when a company crossed one of the access line thresholds, there was a massive shift in costs from the interstate jurisdiction to the state jurisdiction. Many plans were developed and proposed to address this issue, but none were put into effect until the Commission's rules adopted in the Universal Service proceeding in essence froze the weighting portion of the factor at the 1996 level. We believe this approach effectively mitigates the problems associated with the "cliff effect" and we ask the Commission to retain the rule as written to assist those few companies who will be crossing a threshold after 1996. This assistance would be in effect until the Commission addresses universal service support for rural companies on a more permanent basis.

If the Commission believes the rule should have included the adjustment provisions, we ask that the rules change is addressed prospectively as tariffs have been filed and are currently in effect using the rule as written.

Other Billing & Collection Expense

We request interpretation of the Commission's rule in Part 36.380(b) regarding the local exchange carriers billing or collecting on behalf of interexchange carriers. The rule is as follows:

"Local exchange carriers that bill or collect from end users on behalf of interexchange carriers shall allocate one third of the expenses assigned this classification to the interstate jurisdiction, and two thirds of the expenses assigned this classification to the state jurisdiction."

We believe it was the Commission's intent to provide the one-third allocation to interstate only if the local exchange carrier bills or collects **INTERSTATE** revenues from end users on behalf of interexchange carriers. Most, if not all of the small local exchange carriers, provide intrastate billing and collecting services to interexchange carriers regardless of whether or not they provide interstate billing and collection services. In situations where a company provides only intrastate billing and collection services to interexchange carriers, a strict reading of the rule would result in a one third allocation of the expense to interstate even though the only interstate service being billed to the end user is the subscriber line charge (SLC). We ask the commission to clarify this issue.

Part 69

The Commission recently released Responsible Accounting Officer (RAO) Letter 27 addressing the accounting for contributions made to the new Universal Service Fund. The Commission prescribed recording these contributions in Account 6540, Access expense. While the Part 36 rules which use subsidiary records provide adequate latitude for the correct assignment of the universal service expense to the jurisdictions, the Part 69 rules do not appear to accomplish the Commission's goal of allowing recovery of these expenses through the carrier common line charges. Currently, the Part 69 rules provide for the assignment of account 6540 to the interexchange category as follows:

Part 69.401(e) – "Plant Non Specific Operations Expenses in Account 6540 shall be assigned to the interexchange category."

We ask the Commission to clarify the intent to assign the portion of account 6540 related to the contribution to the federal universal service fund to the common line element in Part 69. This assignment to the common line element should remain in effect until the Commission has addressed the accounting issue through the proposed rulemaking proceeding mentioned in the RAO Letter 27, or through changes made to Part 69 in the Access Reform for Rate of Return companies (CC Docket No. 98-77).

Part 54

We ask for clarification for several items related to the calculation of local switching support as contained in Part 54.301. The first question relates to the timing of developing the average investment for developing the switching support. It is unclear if the Commission's intent is to assign all of the investments and expenses to switching using the end of year data, and then average the investment with the prior years investment that is assigned to switching. Based on the formula included in Part 54.301(d)(1), this appears to be the method prescribed. This method, however, does not match up with the way companies allocate costs in the Part 36/69 process. In the cost studies prepared for NECA, the investment is averaged first, and then the assignments are made. The process of averaging the investment before the allocation to switching could result in a significantly different answer than allocating all of the year's costs to switching first, then developing the average.

The second item relates to the allocation of accounts to switching. Part 54.301(c) addresses the allocation of accounts to switching. While it would seem obvious that the amount of COE Category 3 investment would be assigned 100% to switching, Part 54.301(c) does not address account 2210. We ask that the Commission confirm the inclusion of account 2210.

It is not clear if the Depreciation included in 54.301(d)(2) is only that portion related to account 6560 sub-account 2210, or if it also includes that portion of the 2110 sub-account of account 6560 that has been allocated to local switching in 54.301(c).

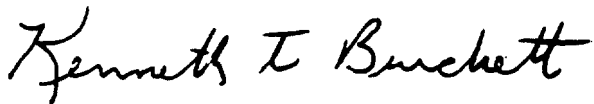
We also ask the Commission to clarify where the state and local taxes are included in the development of the local switching revenue requirement. It appears that since Part

54.301(d)(4) includes only Federal income tax, all other taxes would be included with the expenses in 54.301(d)(3).

Conclusion

If you have any questions about these items for which we request clarification, please call me at (503) 612-4400.

Sincerely

A handwritten signature in cursive script that reads "Kenneth T. Burchett".

Kenneth T. Burchett
Vice President

CC:	Ken Moran	FCC- Common Carrier Bureau
	Lisa Gelb	FCC- Common Carrier Bureau
	Robert Loube	FCC- Common Carrier Bureau
	Steven Burnett	FCC- Common Carrier Bureau
	Cynthia Van Landuyt-	Public Utility Commission of Oregon